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Emmanuel Faber, ISSB Chair
Sue Lloyd, ISSB Vice-Chair
International Sustainability Standards Board
IFRS Foundation

RE: Exposure Drafts IFRS S1 General Requirements for Disclosure of Sustainability related Financial Information and IFRS S2 Climate-related Disclosures

Filed electronically at <https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/>

Dear Chair Faber and Vice Chair Lloyd,

On behalf of Northern Trust Asset Management (NTAM),¹ thank you for the opportunity to provide comment on the International Sustainability Standards Board (ISSB) Exposure Drafts — IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.

We are living in an increasingly changing world where sustainability issues such as climate transition, biodiversity loss and human capital management are becoming increasingly price sensitive and financially relevant to assessing a company's or issuer's enterprise value.

To date, there is variability in the quality, consistency and comparability of sustainability disclosures which results in a higher propensity for mispricing, thus resulting in inefficient capital allocation that does not reflect all risks and opportunities.

As financial markets have become more globally connected than ever investors and capital allocators need a globally harmonized approach to sustainability reporting that results in consistent, comparable

¹ NTAM is the branding name of the asset management business of Northern Trust Corporation (Northern Trust), a financial holding company and publicly traded company. Northern Trust is a leading provider of wealth management, asset servicing, asset management and banking solutions to corporations, institutions, families and individuals. As of June 30, 2022, Northern Trust had assets under custody/administration of approximately US \$13.7 trillion and assets under management of approximately US \$1.3 trillion. NTAM is composed of Northern Trust Investments, Inc., Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K., NT Global Advisors, Inc., 50 South Capital Advisors, LLC, Belvedere Advisors LLC and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.

and financially material, decision-useful disclosures in order to support accurate market pricing and market integrity.

We believe that the ISSB's Exposure Drafts represent a pivotal turning point for the industry in developing a 'future-fit,' globally consistent baseline of sustainability disclosures. We view the Exposure Drafts as reflective of ISSB's mission *"to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions."* As such, we are strongly supportive of ISSB's proposals on the two Exposure Drafts and applaud the staff at the ISSB for the hard work and leadership they have shown to establish a common international language on sustainability disclosures.

We have expressed our support by contributing views to industry consultations, namely the Investment Association (UK), and endorsing the views expressed by the SASB Standards Investor Advisory Group (IAG), a group representing more than \$53 trillion in assets under management.

[FINAL GRR CD Comment Letter-IFRS.pdf \(sasb.org\)](#).

Below we highlight aspects of both proposals we feel worthy of note that we are strongly supportive of, and provide our views on the importance of interoperability and some suggestions for the ISSB to consider supporting wider global adoption of the standards.

1. Building Blocks Approach - Building on SASB and TCFD

We strongly support the ISSB's proposal to build on existing sustainability reporting efforts, namely the incorporation of the Sustainability Accounting Standards Board's (SASB) 77 industry-specific metrics and the disclosure framework of the Task Force on Climate-Related Financial Disclosures (TCFD). We note that a significant number of corporations already voluntarily disclose in-line with the SASB standards,² including Northern Trust.³ We also note that several jurisdictions are adopting TCFD-aligned disclosures into their regulatory regimes, including the United Kingdom, Hong Kong, the European Union, and Singapore. Most recently, in the U.S., we were pleased to see that the Securities and Exchange Commission's (SEC) proposal for 'The Enhancement and Standardization of Climate-Related Disclosures for Investors,'⁴ was modelled on the TCFD disclosure framework. NTAM, through our stewardship efforts, actively encourages companies to disclose financially material environmental, social and governance (ESG) issues aligned with SASB and TCFD. Additionally, as is the case with many other users of this information, NTAM has incorporated SASB and TCFD frameworks into its proprietary ESG scoring framework which we expand upon in point 2 below. As the foundational building blocks for the ISSB's Exposure Drafts are built on SASB and TCFD, there is already a high degree of familiarity from both users and preparers which we believe will be conducive for easier and greater adoption of new corporate sustainability reporting standards.

2. Criticality of Maintaining Industry Specificity

An industry-specific approach is crucial when analyzing companies through a sustainability lens, as the ESG-related business issues that are most likely to impact a company's bottom line often differ greatly between industries. These differences are reflective of distinct business models and operational

² [Global Use of SASB Standards - SASB](#)

³ [NTRS SASB disclosure](#)

⁴ [Proposed rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors \(sec.gov\)](#)

structures which necessitate a focus on separate issues — not dissimilar to how a fundamental research analyst would need to adjust the focus of their analysis when dealing with companies in varying sub-industries. We believe this additional clarity and delineation around industry-specific key issues is a necessity in order to make informed investment decisions when analyzing companies across the spectrum of SASB’s 77 identified industries. As such, we advocate strongly for the ISSB standards to be developed applying an industry-specific lens.

NTAM has implemented SASB’s industry-specific metrics applied across TCFD’s anticipatory framework in the calculation of NTAM’s proprietary ESG Vector Score™. The ESG Vector Score™ is a measurement that assesses publicly traded companies in the context of business-relevant and financially material ESG-related criteria that could impact the operating performance of a company and its security valuation. The ESG Vector Score™ captures both the magnitude of ESG issues and the direction, specifically looking at whether the risks we identify are being well-managed against forward-looking risks. The ESG Vector Score™ is an input into several sustainability-targeted strategies as well as informing our stewardship activities, specifically in identifying potential engagement targets for those companies that score poorly.

Further details on the ESG Vector Score™ can be found here, [The Northern Trust ESG Vector Score | Northern Trust](#), along with a [methodology brief](#)

3. Materiality from an Enterprise Value Perspective and Financial Reporting Connectivity

We very much agree with the ISSB’s continued focus on the disclosure needs of capital allocators and investors as primary users of this information to assess enterprise value. As stated by the ISSB their mission is to *“to provide a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies’ sustainability-related risks and opportunities to help them make informed decisions.”*

Rather than seeing sustainability information as non-financial, we view sustainability information as pre-financial indicators that are deeply connected to the sustained financial well-being of corporations. As such, we strongly support corporations disclosing sustainability information concurrently with their financial reporting, explaining the connectivity to the financial statements and disclosed in accordance with International Financial Reporting Standards, the general form already familiar to preparers of financial statements.

Given the established global market acceptance of the IFRS in financial reporting, we believe it is both reasonable and beneficial to utilize a common architecture for both financial reporting and pre-financial sustainability disclosure.

4. Raising Ambition Levels on Climate Disclosure

We welcome the ISSB raising ambition levels for the disclosure of more granular information by preparers on how they are addressing climate transition risks and opportunities. Most notably, we are strongly in support of the requirement to disclose Scope 3 emissions which goes beyond the strong encouragement of TCFD’s recommendations. While we note that data and methodological challenges still exist, they are rapidly improving and preparers should be given a long runway to implement the new disclosure regime. These views are consistent with and reflective of NTAM’s views recently expressed in our comment letter to the SEC’s proposal for ‘The Enhancement and Standardization of Climate-Related

Disclosures for Investors,' which can be accessed via the following links: [SEC.gov | Comments on Proposed rule S7-10-22; s71022-20132098-302581.pdf \(sec.gov\)](#)

A Note on the Interoperability of ISSB Standards

The success of establishing a global baseline of sustainability disclosure standards rests on the interoperability of these standards with different jurisdictional reporting requirements that exist to meet the informational needs of a wider group of stakeholders and outside investors as well as meeting regulatory requirements. Interoperability is also essential to reduce the reporting burden and cost and increase the efficiency, consistency and comparability for preparers. Regulatory coordination is an essential ingredient to foster the needed structures for success in establishing any global disclosure standards.

While we continue to strongly support the clear focus of the ISSB on financial materiality in assessing enterprise value, we recognize that clients and regulators in some jurisdictions, most notably in Europe, are requiring the disclosure by corporations and their asset managers on the wider impacts they have on the environment and the societies they operate in, i.e., double materiality. This underscores the importance for interoperability of the ISSB standards to serve as building blocks upon which different jurisdictional reporting standards can be layered upon.

We strongly support the efforts the ISSB has undertaken to support interoperability of the standards, most notably the collaboration with the Global Reporting Initiative (GRI) to coordinate their respective standard-setting activities and the Jurisdiction Working Group. The ISSB should continue with these efforts, most notably with the connectivity to the European Financial Reporting Advisory Group (EFRAG) and their proposals for a set of EU sustainability disclosure standards. We encourage EFRAG to foster collaboration with the ISSB proposals to increase global efficiency in the implementation of disclosure standards and mitigate the risk to preparers of double-reporting burdens.

Matters for Consideration

Recognizing that familiarity with sustainability and climate reporting varies by jurisdiction and often industry and size of the organization, we would offer the below suggestions to support widespread global adoption of the standards in a timely manner and mitigate implementation hurdles:

1. Develop implementation guidance with practical examples for preparers that demonstrates the building blocks approach of the standards and their interoperability with additional jurisdiction-specific requirements with support provided by targeted outreach implementation workshops.
2. Introduce a phased-in approach with limited flexibilities and over time scale up the scope of reporting. This would recognize and acknowledge the need for some preparers to familiarize and build capability on reporting and technical readiness as well as enable time for data and methodologies to improve especially in the case of Scope 3 disclosure.

Concluding Remarks

In conclusion, we would again like to thank the ISSB for the opportunity to provide comments and to underscore NTAM's strong support for the ISSB's Exposure Drafts. Once again, we extend our congratulations to the ISSB for the leadership they have shown in establishing a globally consistent and comparable common language on sustainability disclosures. We remain at your disposal should you wish to discuss further our comments.

Yours Sincerely,

A handwritten signature in cursive script that reads "Julie Moret". The signature is written in black ink and is positioned to the left of the printed name.

Julie Moret
Senior Vice President & Global Head, Sustainable Investing and Stewardship
Northern Trust Asset Management